ZEDCOR ENERGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zedcor Energy Inc.

We have audited the accompanying consolidated financial statements of Zedcor Energy Inc. (formerly Canadian Equipment Rentals Corp.) which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Zedcor Energy Inc. (formerly Canadian Equipment Rentals Corp.) as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 28, 2018
Calgary, Canada

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
IN THOUSANDS OF CANADIAN DOLLARS

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	1,833	2,955
Restricted cash (note 19(a))	600	1,200
Accounts receivable (note 21(b))	3,319	2,830
Income taxes recoverable	—	986
Prepaid expenses and deposits	272	643
Assets held for sale (note 19(b))	—	8,381
	6,024	16,995
Non-current assets:		
Property and equipment (note 4)	40,038	46,531
Intangibles and goodwill (note 6)	6,846	7,506
Deferred income taxes (note 10)	7,228	6,617
	54,112	60,654
Total assets	60,136	77,649
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	1,162	1,794
Current portion of onerous lease liability (note 9)	242	—
Income taxes payable	217	—
Current debt (note 7)	19,431	29,041
Liabilities held for sale (note 19(b))	—	545
	21,052	31,380
Non-current liabilities:		
Note payable (note 8)	2,467	4,149
Onerous lease liability (note 9)	742	—
	3,209	4,149
Total liabilities	24,261	35,529
Shareholders' equity		
Share capital (note 11)	106,905	105,071
Preferred equity (note 11)	2,864	2,864
Warrants (note 12)	300	—
Contributed surplus	1,366	1,160
Deficit	(75,560)	(66,975)
	35,875	42,120
Total liabilities and shareholders' equity	60,136	77,649

Approved on behalf of the Board of Directors:

(Signed) *"Ian McKinnon"*
Ian McKinnon – Director, President & CEO

(Signed) *"Brad Munro"*
Brad Munro – Director

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31 2017	2016
Revenues	14,636	10,598
Direct expenses		
Direct operating costs	5,597	4,632
Depreciation of equipment	5,739	7,701
	11,336	12,333
Gross margin (loss)	3,300	(1,735)
Operating expenses		
General and administrative (note 15)	6,279	7,607
Depreciation of other property and equipment	148	186
Loss on sale of equipment	336	9,878
Loss on derecognition (note 4)	287	—
Amortization of intangible assets (note 6)	660	661
Provision for onerous lease (note 9)	984	—
Impairment of property & equipment	—	7,822
Business acquisition expenses	—	472
	8,694	26,626
Other expenses		
Finance costs (note 16)	3,581	1,046
Purchase gain (note 3)	—	(2,664)
Loss before income taxes	**(8,975)**	**(26,743)**
Income taxes (note 10)		
Current (recovery) expense	(16)	(50)
Deferred (recovery) expense	(590)	(7,076)
	(606)	**(7,126)**
Net loss and comprehensive loss from continuing operations	**(8,369)**	**(19,617)**
Net loss from discontinued operations, net of income tax (note 19)	(216)	(5,013)
Net loss and comprehensive loss	**(8,585)**	**(24,630)**
Basic and Diluted Net loss per share (note 14)		
From continuing operations	($0.17)	($0.49)
From discontinuing operations	($0.00)	($0.12)
Total Basic and Diluted Net loss per share	($0.17)	($0.61)
Weighted average number of shares outstanding		
Basic	48,095,115	40,343,006
Diluted	48,095,115	40,343,006

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

IN THOUSANDS OF CANADIAN DOLLARS

(Stated in thousands of Canadian dollars)	Share capital	Preferred shares	Warrants	Share purchase loans	Contributed surplus	Deficit	Total
Balance – December 31, 2015	102,610	—	—	(22)	1,024	(42,345)	61,267
Stock based compensation	—	—	—	—	136	—	136
Shares purchase loan cancellation	(22)	—	—	22	—	—	—
Shares issued on business acquisition	2,484	2,864	—	—	—	—	5,348
Shares issue costs net of deferred tax benefit of $15	(41)	—	—	—	—	—	(41)
Dividends reinvested	40	—	—	—	—	—	40
Comprehensive loss	—	—	—	—	—	(24,630)	(24,630)
Balance – December 31, 2016	105,071	2,864	—	—	1,160	(66,975)	42,120
Stock based compensation	—	—	—	—	11	—	11
Issuance of warrants	—	—	300	—	—	—	300
Shares issued as consideration for loan guarantee	44	—	—	—	—	—	44
Shares issued for partial repayment of note payable	1,800	—	—	—	195	—	1,995
Share issue costs net of deferred tax benefit of $4	(10)	—	—	—	—	—	(10)
Comprehensive loss	—	—	—	—	—	(8,585)	(8,585)
Balance – December 31, 2017	106,905	2,864	300	—	1,366	(75,560)	35,875

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31 2017	2016
Cash provided by (used in):		
Operating		
Net loss	(8,369)	(19,617)
Depreciation of property and equipment (note 4)	5,887	7,888
Loss on disposal of property and equipment (note 4)	336	9,878
Loss on derecognition (note 4)	287	—
Amortization of intangible assets (note 6)	660	661
Impairment of property and equipment	—	7,822
Purchase gain (note 3)	—	(2,664)
Gain on sale of operating segment (note 19)	(219)	(855)
Stock based compensation	11	136
Non-cash interest expense and other financing costs	557	—
Income taxes recovered	986	492
Deferred income taxes (note 10)	(590)	(7,076)
Cash flow from (used in) operating activities before changes in non-cash working capital	(454)	(3,335)
Changes in non-cash working capital (note 17)	206	(247)
Cash flow used in continuing operations	(248)	(3,582)
Cash flow provided by discontinued operations (note 19)	196	4,349
Cash flow provided by (used in) operating activities	(52)	767
Investing		
Change in non-cash working capital related to investing activities (note 17)	(41)	271
Repayment of debt assumed on business acquisition (note 3)	—	(12,789)
Proceeds from sale of operating segment (note 19)	1,050	10,354
Purchase of property and equipment (note 4)	(411)	(2,061)
Proceeds from sale of property and equipment (note 4)	394	2,221
Proceeds from sale of assets held for sale (note 19(b))	7,336	5,281
Cash flow provided by continuing investing activities	8,328	3,277
Cash flow (used in) discontinued investing activities (note 19)	(7)	(319)
Cash flow provided by investing activities	8,321	2,958
Financing		
Share issue costs	(14)	(56)
Dividends paid, net of reinvestment	—	(688)
Repayment of syndicated credit facility (note 7)	(29,041)	(15,359)
Proceeds from short-term debt (note 7)	20,400	12,900
Repayment of short-term debt (note 7)	(736)	—
Repayment of obligations under finance leases	—	(641)
Cash flow (used in) continuing financing activities	(9,391)	(3,844)
Cash flow (used in) discontinued financing activities (note 19)	—	(253)
Cash flow (used in) finance activities	(9,391)	(4,097)
Net change in cash in the year	(1,122)	(372)
Cash, beginning of year	2,955	3,327
Cash, end of year	1,833	2,955

See accompanying notes to the Consolidated Financial Statements

CORPORATE INFORMATION:

Zedcor Energy Inc. (formerly Canadian Equipment Rentals Corp. and prior thereto CERF Incorporated) (the “Company”) was formed under the laws of Alberta as a corporation on August 10, 2011. Prior to October 1, 2011, operations were carried on as Canadian Equipment Rental Fund Limited Partnership (the “Partnership”), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005. On June 27, 2017, the Company received shareholder approval for the name change from Canadian Equipment Rentals Corp. to Zedcor Energy Inc.

The Company is presently engaged in energy services and in 2016 was also engaged in general equipment rentals and waste management services. Zedcor Energy Inc. is listed on the TSX Venture Exchange under the symbol ZDC.

1. BASIS OF PREPARATION:

a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 28, 2018.

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All currency amounts have been rounded to the nearest thousand dollars, unless otherwise indicated.

The Company’s consolidated financial statements are prepared under the historical cost convention, with the exception of items that IFRS requires to be measured at fair value.

b) Basis of presentation

In the presentation of financial statements, Management is required to identify where events or conditions indicate that significant doubt may exist about the Company’s ability to continue as a going concern.

After assessing internal budgets, plans, financing agreements and forecasts for the coming year, Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern. See Note 20 (c) for significant judgements involved in reaching this conclusion.

c) Critical accounting estimates and judgments

The following judgments and estimates are those deemed by management to be material to the Company’s consolidated financial statements.

Critical Accounting Estimates

Amounts recorded for depreciation and amortization are based on the estimated useful lives and residual values of the underlying assets. Useful lives and residual values are based on Management's best estimate using knowledge of past transactions and as such are subject to measurement uncertainty. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal or other limitations to use. It is possible that changes in these factors may cause changes in the estimated useful lives and residual values of the Company's property, plant and equipment and intangible assets in the future.

When determining the fair value of assets acquired and liabilities assumed in business combinations, the Company uses various valuation techniques including income based approaches, which involves estimating the future net cash flows and applying the appropriate discount rate to those future cash flows to determine the fair value of the identifiable intangible assets acquired.

The Company tests annually, or when facts and circumstances indicate, whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units are determined using the greater of fair value and value-in use. Fair value and value in use calculations require the use of estimates, assumptions, and judgments. Value-in-use calculations require Management to use assumptions regarding projected future sales, earnings, and capital investment, consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with specific cash flows. Fair value requires Management to make judgments of fair value using such estimates of market rental rates for equipment, discount rates, capitalization rates, and terminal capitalization rates.

Tax interpretations, regulations, and legislation, in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred taxes are assessed by Management at the end of the reporting period to determine the likelihood that they may be realized from future taxable earnings.

Significant Management Judgments

The Company's assets are segregated into cash-generating-units based on their ability to generate largely independent cashflows and used for impairment testing. The determination of the Company's cash-generating-units is subject to Management's judgment. The going concern assessment and the related disclosures of liquidity and related financing received subsequent to year end was a matter of significant judgement.

Recoverability of assets

The Company assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. The assessment of the existence of impairment indicators is based on various internal and external factors and involves management's judgement. Goodwill is tested annually for impairment or when an indicator is present. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. The key estimates the Company normally applies in determining the recoverable amount of an individual asset, CGU or group of CGUs include expected levels of activity within the oil and gas industry, future sustaining capital costs, discount rates, tax rates, and operating margins. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available. Changes to these estimates may affect the recoverable amounts of an individual asset, CGU or group of CGUs which may then require a material adjustment to their related carrying value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. The comparative statement of comprehensive income has been re-presented as if an operation discontinued during the year had been discontinued from the start of the comparative year (see note 18).

a) Basis of consolidation:

These financial statements include the accounts of Zedcor Energy Inc. and its wholly owned subsidiaries. Subsidiaries are those entities controlled by Zedcor Energy Inc. Control exists when Zedcor Energy Inc. has power over an investee, exposure or rights to variable returns from its involvement with its investees and the ability to use its power to affect its return from the investee. Subsidiaries are fully consolidated from the date on which control is transferred to Zedcor Energy Inc. They are deconsolidated from the date that control ceases. The following entities have been included in these consolidated financial statements:

Zedcor Energy Inc.	Parent
4-Way Equipment Rentals Corp. (discontinued)	100% owned
MCL Waste Systems & Environmental Inc. (discontinued)	100% owned
Zedcor Energy Services Corp.	100% owned

Inter-entity balances, transactions and any unrealized gains or losses arising from inter-entity transactions are eliminated in the preparation of these consolidated financial statements.

b) Business combinations:

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable net assets, including intangible assets, liabilities and contingent liabilities, are recognized at their fair values at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible assets and intangible assets, the excess is recognized in the statement of income.

IN THOUSANDS OF CANADIAN DOLLARS

Transaction costs, other than those associated with the issuance of debt or equity securities, incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

c) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in the statement of income.

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is provided for at the following rates and methods:

Oilfield accommodation equipment	10 years straight line
Industrial and other oilfield equipment	5% to 30% declining balance
Automotive and other equipment	20% to 30% declining balance
Furniture and office equipment	20% to 100% declining balance

Leasehold improvements are amortized over the term of the lease.

d) Goodwill and intangible assets:

Goodwill is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is allocated to the acquired business or CGU to which it relates.

Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss, and are amortized on a straight line basis over their estimated useful lives.

Indefinite life intangible assets are carried at cost less any accumulated impairment loss.

Amortization is calculated based on the cost of the asset, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets (other than goodwill and indefinite life intangible assets) from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Long term contracts	12 to 60 months
Customer relationships	60 months
Non-competition agreements	48 months from the date the agreement becomes effective
Brand names and other	90 days to 60 months

e) Impairment of non-financial assets

The carrying value of long-term assets, excluding goodwill, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or CGU may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value in use (“VIU”). Fair value is determined to be the amount for which the asset could be sold for in an arm’s length transaction. The Company bases its impairment calculation on maintaining EBITDA, which refers to net income before finance costs, income taxes, depreciation and amortization. The VIU calculation is based on a discounted cash flow model. The cash flows are derived from the Company’s forecast and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Reversals of impairments are recognized when the indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset or CGU for prior periods. An impairment loss in respect of goodwill is not reversed.

f) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

If a lease agreement transfers substantially all of the risks and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalized. At the inception of the lease the asset is recorded at the lower of the present value of the minimum lease payments or fair value. The asset is depreciated over the shorter period of its estimated useful life and the lease term. The corresponding lease obligation is recorded as a liability net of finance charges. Minimum lease payments made under finance leases are apportioned between finance expense and reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

h) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the asset associated with that contract.

i) Revenue recognition:

Revenue from rentals is recognized as the rental service is rendered, based upon agreed daily, weekly or monthly rates, and collectability is reasonably assured.

j) Equity settled transactions:

The Company has a share-based compensation plan that allows employees, officers and directors, who have been granted options, to purchase common shares at a set price over a specified time period. Option exercise prices approximate the market price of the shares on the date the options are granted. Options granted under the plan vest over three years and expire five years after the grant date.

Share based compensation expense is determined based on the estimated fair value of the options on the date they are granted. The fair value of the options granted is estimated using the Black-Scholes option pricing model. Factors used in this model include expected volatility, expected dividends and risk-free interest rates.

The compensation expense is recognized in earnings over the vesting period, with a corresponding increase in contributed surplus.

Consideration paid on the exercise of the options is recorded as an increase in shareholders' equity together with corresponding amounts previously recognized in contributed surplus. Forfeitures are estimated for at date of grant, which may result in a reduction of compensation expense in the period of the forfeiture.

k) Finance costs:

Finance costs comprise interest expense on borrowings and are recognized in earnings when incurred. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss.

l) Income taxes:

Income tax expense is comprised of current and deferred tax. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that will not affect accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be in effect when the temporary differences reverse, based on laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available in sufficient amount to offset the tax losses, credits and temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

m) Net income and comprehensive income per share:

Basic net income per share is determined by dividing the net income by the weighted average number of shares outstanding during the year. Diluted net income per share reflects the potential dilution that would occur if stock options and warrants were exercised. The treasury stock method is used to determine the dilutive effect of stock options and warrants. Under the treasury stock method only "in-the-money" options and warrants impact the dilution calculation.

n) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency at the year end are translated into Canadian dollars at the yearend rate of exchange. Foreign currency gains and losses resulting from fluctuations in exchange rates between the transaction dates and reporting dates are included in income in the period in which they occur. The Canadian dollar is the Company's functional currency.

o) Financial Instruments:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company initially recognizes loans and receivables on the date that they originate. The loans and receivables are derecognized when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Assets in this category include accounts receivable, and cash.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they originate. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

The Company has the following non-derivative financial liabilities: bank indebtedness, accounts payable and accrued liabilities, non-revolving term loans, notes payable and finance lease obligations.

Financial derivatives not using hedge accounting

The Company holds derivative financial instruments at times to hedge its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are recognized at fair value and changes therein are accounted for in profit or loss.

p) Assets held for sale

Non-current assets, or disposal groups comprising of assets and liabilities, are classified as held for sale if it is highly probably that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's other accounting policies. Thereafter, the assets held for sale, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

q) Discontinued operations:

A discontinued operation is a component of the Company that has either been disposed of or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Assets, liabilities, comprehensive income, and cash flows relating to a discontinued operation of the Corporation are segregated and reported separately from the continuing operations of the Corporation. The comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

r) New accounting standards not yet adopted:

At the date of these financial statements, the following accounting standards and interpretations were issued but not effective until a future date:

- *Financial Instruments (IFRS 9)* - The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company has assessed the potential impact on its consolidated financial statements and does not expect any significant difference to arise on adoption.
- *Revenue from Contracts with Customers (IFRS 15)* – The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has assessed the potential impact on its consolidated financial statements and does not expect any significant difference to arise on adoption.
- *Leases (IFRS 16)* – The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company is currently assessing the impact of IFRS 16 on its financial statements.

3. BUSINESS ACQUISITIONS:

a) Zedcor Oilfield Rentals Ltd.

On February 2, 2016, the Company acquired all the outstanding common and preferred shares of Zedcor Oilfield Rentals Ltd. ("Zedcor"). The purchase price consisted of the issuance by the Company of 3,049,968 common shares and 4,400,000 preferred shares both at a deemed price of $0.70 per share, the payout of approximately $12,789 in debt and the assumption of a $5,000 subordinated vendor take-back note.

The purchase price of $21,190 consisted of $1,799 of (3,049,968) Zedcor Energy Inc. common shares issued at the market closing price of $0.59 per share on the acquisition date and $2,864 based on the issuance of 4,400,000 Zedcor Energy Inc. preferred shares with a stated value of $0.70 per share, fair valued at $2,864, plus the payout of $12,789 in debt and the assumption of a $5,000 subordinated vendor take back note fair valued at $3,738. The purchase price was allocated to the net assets acquired based on their estimated fair values as follows:

IN THOUSANDS OF CANADIAN DOLLARS

Fair value of acquired net assets:	
Working capital	1,997
Deferred tax liability	(957)
Property and equipment	22,474
	23,514
Financed as follows:	
Common shares issued	1,799
Preferred shares issued	2,864
Note payable	3,738
Debt assumed	12,789
	21,190
Purchase gain	2,324

The Company recorded a purchase gain for the excess of the estimated fair value of the acquired net assets over the purchase price. Before recording the estimates of fair values and concluding that a purchase gain was appropriate, a rigorous assessment of all identified assets acquired and liabilities assumed at the acquisition date was completed to determine whether any additional assets or liabilities should be recognized. All procedures in determining the provisional measurement of identified assets acquired and liabilities assumed at the acquisition date were appropriate and in accordance with IFRS 3 Business Combinations. It was concluded the measurements appropriately reflect the consideration of all available information at the acquisition date, and the purchase gain is appropriate considering the nature and circumstances of the acquisition. Such circumstances included Zedcor's relatively new asset base and its expanded geographic footprint.

The Company incurred costs of $423 related to the Zedcor acquisition. These costs mainly relate to due diligence, legal fees and tax advisory fees. These costs have been included in business acquisition costs in the consolidated statements of income and loss.

b) Summit Star Energy Services Inc.

On May 6, 2016, the Company completed the acquisition of all the assets used in the business of Summit Star Energy Services Inc. ("Summit Star"). Summit Star's business involved the rental of light towers and electric pumps to the oil and natural gas industry in Western Canada.

The Company issued 1,713,318 common shares for the assets of Summit Star, which when multiplied by the volume weighted average price of the common shares of the Company over the 30 preceding trading days resulted in a stated purchase price of $750.

IN THOUSANDS OF CANADIAN DOLLARS

Under IFRS 3 Business Combinations, the market closing price of $0.40 per share on the acquisition date was used to value the 1,713,318 common shares, resulting in the recorded purchase price of $685. The purchase price was allocated to the assets acquired based on their estimated fair values as follows:

Fair value of acquired net assets:	
Property and equipment	1,025
Financed as follows:	
Common shares issued	685
Purchase gain	340

The Company recorded a purchase gain for the excess of the estimated fair value of the acquired net assets over the purchase price. Before recording the estimates of fair values and concluding that a purchase gain was appropriate, a rigorous assessment of all identified assets acquired at the acquisition date was completed to determine whether any additional assets or liabilities should be recognized. All procedures in determining the provisional measurement of identified assets acquired at the acquisition date were appropriate and in accordance with IFRS 3 Business Combinations. It was concluded the measurements appropriately reflect the consideration of all available information at the acquisition date, and the purchase gain is appropriate considering the nature and circumstances of the acquisition. Such circumstances included Summit Star's relatively new asset base and technologically advanced equipment.

The Company incurred costs of $48 related to the Summit Star acquisition. These costs mainly relate to due diligence, legal fees and tax advisory fees. These costs have been included in business acquisition costs in the consolidated statements of income and loss.

4. PROPERTY AND EQUIPMENT:

Cost	Buildings	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2015	4,801	91,191	14,275	1,882	358	112,507
Additions	—	2,998	3,733	331	—	7,062
Business acquisition	—	22,947	515	37	—	23,499
Assets held for sales	—	(35,174)	(16,759)	(1,427)	(249)	(53,609)
Disposals	—	(21,661)	(1,207)	(43)	—	(22,911)
Derecognition	(4,801)	—	—	—	—	(4,801)
At December 31, 2016	—	60,301	557	780	109	61,747
Additions	—	379	2	30	—	411
Derecognition	—	(308)	—	—	—	(308)
Disposals	—	(909)	(105)	(2)	—	(1,016)
At December 31, 2017	—	59,463	454	808	109	60,834

IN THOUSANDS OF CANADIAN DOLLARS

Accumulated depreciation	Buildings	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2015	1,760	24,544	7,955	732	201	35,192
Depreciation	137	10,170	1,702	846	34	12,889
Assets held for sale	—	(12,485)	(8,625)	(1,202)	(179)	(22,491)
Elimination on disposal	—	(7,583)	(876)	(18)	—	(8,477)
Derecognition	(1,897)	—	—	—	—	(1,897)
At December 31, 2016	—	14,646	156	358	56	15,216
Depreciation	—	5,618	121	129	19	5,887
Derecognition	—	(21)	—	—	—	(21)
Elimination on disposal	—	(243)	(42)	(1)	—	(286)
At December 31, 2017	—	20,000	235	486	75	20,796

Net Book Value	Buildings	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2016	—	45,655	401	422	53	46,531
At December 31, 2017	—	39,463	219	322	34	40,038

During the year ended December 31, 2017, the Company sold assets with a net book value of $730 for proceeds of $394, resulting in a loss of $336 (2016: loss of $17,483).

The Company recorded a loss on derecognition of $287. The assets were derecognized as they did not provide any current or potential future economic benefits to the company, nor could they be sold to a third party.

5. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS:

The Company reviews the carrying value of its long-lived assets and cash generating units ("CGU") at each reporting date to determine whether there is any indication of value impairment. At December 31, 2017, the Company performed an impairment test for goodwill on the Energy Services CGU. The Company determined the recoverable amount on the basis of fair value less cost of disposal ("FVLCOD"). The FVLCOD was determined by discounting the future cash flows to be generated from the operations of the cash generating unit to which goodwill has been allocated, using a 5-year model, a post-tax discount rate of 15% (pre-tax discount rate of 20%) and a terminal value growth of 2.0%. Budgeted EBITDA margins for the Energy Services CGU was forecasted using historical margins and taking into consideration known or pending factors. EBITDA is a non-IFRS measure which is defined as earnings before interest, taxes, depreciation and amortization.

Revenue, EBITDA and cash flow projection assumptions were based on a combination of past results, current corporate structure and expectations of future growth. Cash flow projections for 2018-2022 assume a gradual recovery to historical activity levels, due to the gradual recovery in the industry seen during the past year. Impairment losses are allocated first to reduce the carrying cost of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU.

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No impairment charges were recorded for the Energy Services Segment, as the recoverable amount was greater than the carrying amount. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying amount.

6. GOODWILL AND INTANGIBLES

Cost	Goodwill	Long term Contracts	Customer Relation-ships	Non-compete agreement	Brand names & other	Total
At December 31, 2015	**7,259**	**150**	**2,421**	**8**	**16**	**9,854**
Amortization	—	(150)	(661)	(8)	(12)	(831)
Disposition	(1,513)	—	—	—	(4)	(1,517)
At December 31, 2016	**5,749**	—	**1,760**	—	—	**7,506**
Amortization	—	—	(660)	—	—	(660)
At December 31, 2017	**5,746**	—	**1,100**	—	—	**6,846**

7. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at December 31, 2017	Outstanding as at December 31, 2016
Revolving operating facility	—	—	—	—	29,041
Loan facility	12.75%	2018	19,431	19,431	—
Operation loan facility	6.0%	—	1,000	—	—
				19,431	29,041
Current portion				(19,431)	(29,041)
Long term debt				—	—

Revolving operating facility:

On February 16, 2017, the Company's Syndicated Credit Facility was amended under the Sixth Amending Agreement in which the lenders agreed to forbear from demanding repayment or enforcing its security under the agreement until April 28, 2017. The sixth amending agreement included a reduction in the revolving facility amount from $32.5 million to $20.97 million.

On April 21, 2017, the Syndicated Credit Facility was repaid in full and forthwith cancelled.

Loan and security facility:

On April 21, 2017, the Company entered into a Loan and Security Agreement with a new lender. The Loan and Security Agreement in the amount of $20.4 million was used to repay the Syndicated Credit Facility, bears interest at a rate of 12.75% and has a term of 12 months with an option to extend for an additional 12 months at the satisfaction of the lender. The Loan and Security Agreement is serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement does not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company.

The Company issued the lender 3,651,501 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.25 per warrant. The warrants expire 90 days after the term of the loan, July 21, 2019. The warrants fair value of $300 was recorded as a transaction cost of the loan and will be expensed over the term of the loan. (see note 12)

On March 28, 2018, the Company renewed the Loan and Security agreement in the amount of $17.5 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and will be serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to $0.27 per share from $0.25 per share and extended the expiry date to July 21, 2020. The facility no longer has any shareholder guarantees pledged as security, and all covenants and collateral remain the same.

Operating loan facility:

On May 10, 2017, the Company signed a $1 million operating loan agreement bearing interest at a rate of prime plus 3.3% and secured by the Company's accounts receivables and restricted cash. The operating loan facility requires that the Company's current ratio[1] does not fall below 1.50:1.00 and effective September 30, 2017, the debt service coverage ratio[2] not be less than 1.50:1.00, calculated in accordance with the formula set forth in the agreement. As at December 31, 2017 the Company's current ratio, as defined to exclude the loan facility, was 4.37:1.00 and the debt service coverage ratio was 1.50:1.00.

On March 28, 2018, the Company signed a $13.5 million credit facility with a tier 1 bank, comprised of a $3 million operating loan facility, which replaces the previous $1 million operating loan facility, a $2.5 million non-revolving term loan facility, which will be used to pay out the guarantee from the Loan and Security agreement, and a $8 million equipment finance term loan facility. The operating loan facility is payable on demand by the Lender, bears interest at a rate of prime plus 3.3% and is secured by the Company's accounts receivable. The term facility will mature in two years, bears interest at a rate of prime plus 3.3% and is secured by a shareholder guarantee. The shareholder guarantee bears interest at a rate of 5.0% per annum and is paid monthly through the issuance of shares. The equipment finance loan is amortized over 36 months, bears interest at a rate of 6.1% and is repayable in equal monthly installments of principal and interest over the term. The equipment

[1] Per the operating loan facility the current ratio is defined as current assets less current liabilities, excluding current debt.

[2] Per the operating loan facility the debt service coverage ratio is the ratio of EBITDA to interest expense and scheduled principal payments. EBITDA is defined as net income from continuing operations plus interest expense, income taxes, depreciation and amortization.

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finance loan will be used to finance 75% of the cost of new equipment purchased. The credit facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.25:1.00 and the share value of the shares pledged under the shareholder guarantee not be less than 1.25 times the value of the outstanding term facility.

8. NOTE PAYABLE

On February 2, 2016, the Company issued a $5,000,000 Canadian dollar vendor take-back note as part of the Zedcor acquisition purchase price (see Note 3). The vendor take-back note matures five years from the issue date at its nominal value and bears interest at five per cent per annum, accruing daily from the issue date. Accrued and unpaid interest is due upon maturity. The vendor take-back note is unsecured and subordinated to the Credit Facilities and interest payments are subject to certain restrictions in the Credit Facility.

On April 27, 2017, the Company repaid $2.5 million of the principal amount of the vendor take-back note by issuing 10,000,000 Common Shares of the Company to the note holder, representing a price of $0.25 per share. The fair value of the shares on the date of repayment was $0.18 per share.

As at December 31, 2017, the note payable had a carrying value of $2,467.

Fair value of note payable:	
Note payable at 5.0% due February 2, 2021	5,000
Note payable discount	(1,262)
Fair value of note payable as at February 2, 2016	3,738
Interest payable	229
Accretion of note payable discount	182
Balance, December 31, 2016	**4,149**
Principal settlement	(1,995)
Interest payable	166
Accretion of note payable discount	147
Balance, December 31, 2017	**2,467**

9. ONEROUS LEASE LIABILITY

Onerous lease liability relates to a provision for a non-cancellable facility lease contract that expires on June 30, 2027. Due to the sale of the General Rentals segment (see note 19(b)) on February 9, 2017 the Company no longer uses the facility. The facility has been subleased at rates lower than those contracted under the head lease. The obligation for the discounted future payments, net of expected rental income has been provided for. The total onerous lease liability as at December 31, 2017 was $984 (2016: nil).

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10. INCOME TAXES:

The major components of income tax expense are as follows:

	December 31, 2017	December 31, 2016
Current income tax	(16)	(50)
Deferred tax	(590)	(7,076)
Provision for income taxes	(606)	(7,126)

The following summarizes income taxes recognized in equity:

	December 31, 2017	December 31, 2016
Share issue costs	4	15

Deferred tax assets and liabilities are attributable to the following temporary differences:

	Excess book value	Intangibles	Deductible leases	Tax loss carry forwards	Share issue costs & warrants	Net deferred tax asset (liability)
As at December 31, 2015	(2,212)	90	1,039	579	165	(339)
Recognized in profit or loss	3,318	107	(1,039)	4,636	(66)	6,956
As at December 31, 2016	1,106	197	—	5,215	99	6,617
Recognized in profit or loss	(1,292)	(494)	—	2,431	(34)	611
As at December 31, 2017	(186)	(297)	—	7,646	65	7,228

Reconciliation of effective tax rate:

	December 31, 2017	December 31, 2016
Net Income (Loss) before income tax	(8,975)	(26,743)
Statutory Tax rate	27%	27%
Expected tax	(2,423)	(7,221)
Non-deductible expenses	271	95
Change in tax rate	1	—
Adjustment for prior year	7	—
Unrecognized capital and non-capital losses	1,538	—
Tax expense	(606)	(7,126)

As at December 31, 2017 the Company had non-capital loss carry forwards of approximately $34,781 (2016 - $19,317) which may be available to reduce future taxable income. These losses begin to expire in 2030. The Company has recognized $28,319 of loss carry forwards as a deferred tax asset. The full amount of the loss carryforward balance was not recognized as future taxable profit may not be available against which the Company can utilize the full extent of the loss carry forwards. Also included in the December 31, 2017 tax pools are net capital losses of $2,196, which are available to reduce future capital gains. However, these loses are unrecognized as a deferred income tax asset as at December 31, 2017, as management does not believe sufficient future net capital gains will be generated.

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11. SHARE CAPITAL:

Authorized:
The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Common shares issued and fully paid:	Number of shares	$
Balance, December 31, 2015	**36,380,460**	**102,610**
Issuance of common shares under dividend reinvestment program	65,370	40
Share cancelled on forfeiture of share purchase loan	(9,185)	(22)
Issued as consideration in a business acquisition	3,049,968	1,799
Issued as consideration in a business acquisition	1,713,318	685
Share issue costs, net of deferred tax benefit of $15	—	(41)
Balance, December 31, 2016	**41,199,931**	**105,071**
Issued for partial repayment of note payable	10,000,000	1,800
Issued as consideration for loan guarantee	248,777	44
Share issue costs, net of deferred tax benefit of $4	—	(10)
Balance, December 31, 2017	**51,448,708**	**106,905**

Preferred shares issued:	Number of shares	$
Balance, December 31, 2015	**—**	**—**
Issued as consideration in a business acquisition	4,400,000	2,864
Balance, December 31, 2016	**4,400,000**	**2,864**
Balance, December 31, 2017	**4,400,000**	**2,864**

On February 2, 2016, the Company issued 4,400,000 preferred shares at a stated value of $0.70 per share as part of the Zedcor acquisition (see Note 3). The fair value of the preferred shares at the acquisition date was estimated to be $2,864. The preferred shares valuation was determined using a Monte Carlo simulation and Longstaff-Schwartz algorithm. The assumptions used in the valuation include the historical stock price of the Company, the historical volatility of the Company stock price and a Company credit rating of B-.

The Preferred Shares are non-voting and non-transferrable, have a stated value of $0.70 per share and a term of five years. The Preferred Shares have a cumulative dividend of 5% of the stated value commencing on January 31, 2017 until January 31, 2018 and a 10% cumulative dividend from January 31, 2018 thereafter, with dividend payments being subject to certain restrictions in the Company's existing secured credit facilities, and at the discretion of the Board of Directors. The dividend can be settled at the discretion of the Company in either cash or through the issuance of Common Shares based on the conversion price of $0.70.

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After January 31, 2019, the Preferred Shares may be converted by the holder thereof into the Company's Common Shares at a conversion price of $0.70 per share, subject to the right of Company to redeem the Preferred Shares prior to such conversion for a cash amount per share equal to the lesser of: (i) $2.00; and (ii) the current market price of the Common Shares.

Zedcor Energy Inc. shall have the right to redeem the Preferred Shares at any time if the current market price of the Common Shares exceeds $2.00 by either, at the Company's sole option, (i) payment of cash of $2.00 per Preferred Share; or (ii) through the issuance of 4,400,000 Common Shares, subject to certain adjustments.

The Preferred Shares may be redeemed at the end of the term, at the Company's sole option, for either (i) a cash amount per share equal to the lesser of $2.00 and the current market price; or (ii) 4,400,000 Common Shares, subject to certain adjustments.

12. WARRANTS:

Changes in the outstanding number, weighted average exercise price and movements in warrants are as follows:

Warrants issued:	Number of warrants	$
Balance, December 31, 2016	—	—
Issued as consideration in financing arrangement	3,651,501	300
Balance, December 31, 2017	**3,651,501**	**300**

On April 27, 2017, the Company issued 3,651,501 share purchase warrants (see note 7). Each warrant can be used to acquire one common share in the Company at an exercise price of $0.25 per warrant. The warrants expire on July 21, 2019.

13. STOCK OPTIONS:

Changes in outstanding and exercisable employee options are as follows:

	Number of options	Vested	Exercise price	Remaining contractual life in years	Weighted average exercise price
Options as at December 31, 2015	**1,940,500**	**705,881**	—	**3.66**	**2.50**
Options cancelled	(2,697,000)	(975,981)	1.73	—	—
Options vested	—	542,264	2.64	—	—
Options granted February 5, 2016	1,985,000	—	0.50	4.10	0.50
Options granted May 31, 2016	900,000	—	0.48	4.41	0.48
Options as at December 31, 2016	**2,128,500**	**272,164**	—	**4.00**	**0.76**
Options forfeited	(1,222,000)	(392,164)	1.72	—	—
Options vested	—	476,497	0.52	—	—
Options granted May 18, 2017	2,000,000	—	0.25	4.38	0.25
Options as at December 31, 2017	**2,906,500**	**356,497**	—	**3.97**	**0.35**

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The Company estimated the fair value of the 2,000,000 employee stock options issued using the Black-Scholes method of valuation. The Black-Scholes estimate of fair value used the following assumptions:

Expected annual dividend	$0.00
Expected volatility	68.3%
Risk-free interest rate	0.73%
Expected life of options	3 years

During the year ended December 31, 2017, $11 of stock based compensation related to these stock options was recorded in general and administrative expenses (2016 - $136).

14. PER SHARE AMOUNTS:

Net income per share has been calculated based on the weighted average number of shares outstanding during the years ended December 31, 2017 and 2016. The basic weighted average number of shares outstanding for the years then ended was 48,095,115 and 40,343,006 respectively.

The diluted weighted average number of shares was 48,095,115 for 2017 and 40,343,006 for 2016. The diluted weighted average reflects the dilutive effect of “in-the-money” options outstanding. As at December 31, 2017 no vested options or warrants were “in-the-money”.

15. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses are comprised of the following:

	December 31, 2017	December 31, 2016
Administrative salaries and office costs	4,432	5,946
Professional and consulting fees	1,474	1,045
Advertising, promotion, and investor relations	177	522
Computer and technology related expenses	212	278
Bad debt expenses	(16)	(184)
	6,279	7,607

For the year ended December 31, 2017 severance costs of $122 (2016 - $1,109) were include in administrative salaries and office costs.

16. FINANCE COSTS:

Finance costs are comprised of the following:

	December 31, 2017	December 31, 2016
Bank charges and interest	14	8
Interest on debt	3,187	477
Interest on note payable	315	411
Loan syndication and amendment fees	65	150
	3,581	1,046

Total finance costs for 2016, including discontinued operations was $2,814.

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17. CHANGES IN NON-CASH WORKING CAPITAL:

Changes in non-cash working capital related to operating activities

	December 31, 2017	December 31, 2016
Accounts receivable	(419)	(1,284)
Prepaid expenses and deposits	231	(66)
Accounts payable and accrued liabilities	(571)	1,103
Onerous lease	984	—
Income taxes payable	(19)	—
	(206)	(247)
Change in accounts payable related to investing activities	(41)	271
Total change in non-cash working capital	(247)	24
Supplementary information:		
Interest paid	2,949	635
Taxes recovered	986	492

Total interest paid in 2016, including discontinued operating activities was $2,403.

18. RELATED PARTY TRANSACTIONS:

a) Key management personnel compensation

In addition to their salaries and professional fees charged, the Company also provides non-cash benefits to executive officers. The Company has no retirement or post-employment benefits available to its directors and executive officers.

The remuneration of key management personnel and directors during the year ended December 31 was:

	2017	2016
Short term employment salary and benefits	780	2,057
Contract payments	—	236
	780	2,293

b) Transactions with key management personnel and directors:

On February 2, 2016 the Company issued a vendor take back note as part of the Zedcor acquisition. During 2017, the holder of the vendor take back note was elected as a director of the Company. As at December 31, 2017, the note payable had a carrying value of $2,467. (see note 8)

On April 27, 2017, a director of the Company provided a $2,500 guarantee for the Loan and Security Agreement the Company entered into on April 21, 2017. (see note 7) The Company pays interest of 3.0% per annum, through the issuance of shares on the value of the guarantee that remains outstanding. As at December 31, 2017 the amount outstanding on the guarantee is $2,500.

During the year ended December 31, 2017, the Company paid rent for a building of $249 to a company owned by a director of the Company.

During the year ended December 31, 2017, the Company incurred bad debt expense of $48 from a company owned by a former director. The Company also incurred a loss on derecognition of $287. The assets derecognized were under construction with a Company owned by a former director, but were not completed and were determined to be unusable. As a result they provided no future economic benefits to the Company (see note 4).

c) Other:

During the year ended December 31, 2017, the Company paid $27 (2016 - $80) in wages to close family members of directors and executive officers.

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At December 31, 2017 no amount from related parties was unpaid (2016 - $69).

19. DISCONTINUED OPERATIONS:

a) MCL Waste Systems & Environmental Inc.

On November 30, 2016, the Company sold its Waste Management operating segment and wholly owned subsidiary, MCL Waste Systems & Environmental Inc. for $12 million by executing a definitive share purchase agreement. Management sold this segment in order to place greater focus on its core rentals division while concurrently reducing balance sheet leverage. $600 of the proceeds are currently held in trust pursuant to an escrow agreement. The full amount of this restricted cash is expected to be release on June 1, 2018. The comparative consolidated statements of income or loss have been restated to show the discontinued operation separately from continuing operations.

(Stated in thousands of Canadian dollars)	December 31, 2017	December 31, 2016
Revenues	—	**12,665**
Direct expenses		
Direct operating costs	—	9,275
Depreciation of equipment	—	1,280
	—	10,555
Gross margin	—	**2,110**
Operating expenses		
General and administrative	—	1,297
Depreciation of other property and equipment	—	14
Gain on sale of equipment	—	(47)
Amortization of intangible assets	—	171
Finance Costs	—	859

	—	2,294
Income (loss) from operating actives	—	**(184)**
Deferred (recovery) expense	—	173
Net income (loss) from operating activities, net of tax	—	**(357)**
Gain on sale of discontinued operation	(124)	(855)
Net income from discontinued operations	**124**	**498**
Net income per share from discontinued operation		
Basic and diluted	0.00	0.01

Cash flows from (used in) discontinued operations

	December 31, 2017	December 31, 2016
Net cash from operating activities	124	30
Net cash (used in) investing activities	—	(2,837)
Net cash (used in) financing activities	—	(142)
Net cash flows for the year	**124**	**(2,949)**

On July 28, 2017, the final working capital value was settled resulting in a gain of $124.

b) 4-Way Equipment Rentals Corp.

On January 31, 2017, the Company executed a definitive asset purchase agreement to sell the net assets of the General Rentals operating segment and wholly owned subsidiary, 4-Way Equipment Rentals Corp. The transaction closed February 9, 2017. The sale further aligns the Company with its objectives of placing greater focus on its core rental division while reducing balance sheet leverage. The comparative consolidated statements of income or loss have been restated to show the discontinued operation separately from continuing operations.

(Stated in thousands of Canadian dollars)	December 31, 2017	December 31, 2016
Revenues	**662**	**7,780**
Direct expenses		
Direct operating costs	426	3,841
Cost of sales of equipment, fuel and parts	92	1,094
Depreciation of equipment	—	3,039
	518	7,974
Gross margin	**144**	**(194)**
Operating expenses		

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General and administrative	245	2,749
Depreciation of other property and equipment	—	672
Gain on sale of equipment	—	(299)
Impairment of property and equipment	—	122
Other gain	—	(766)
	245	2,478
Finance costs	115	909
Loss before income taxes	**(216)**	**(3,581)**
Current (recovery) expense	236	(936)
Deferred (recovery) expense	(17)	(997)
Net loss from operating activities, net of tax	**(435)**	**(1,648)**
Loss from remeasurement of disposal group	—	3,863
Gain on sale of discontinued operations	(95)	—
Net loss from discontinued operations	**(340)**	**(5,511)**
Net loss per share from discontinued operation		
Basic and diluted	(0.01)	(0.13)

Cash flows from (used in) discontinued operations

	December 31, 2017	**December 31, 2016**
Net cash from operating activities	72	4,319
Net cash from (used in) investing activities	(7)	2,518
Net cash from (used in) financing activities	—	(111)
Net cash flows for the year	**65**	**6,726**

Effect of disposal on the financial position of the Company

Property, plant and equipment	(5,992)
Trade and other receivables	(1,660)
Prepaid expenses and deposits	(145)
Inventory	(537)
Accounts payable and accrued liabilities	506
Net assets and liabilities	**(7,828)**
Consideration received, satisfied in cash	7,336
Restricted cash	500
Net cash flows for the year	**7,836**

On July 12, 2017, the $500 restricted cash was released in addition to funds related to a working capital surplus, resulting in a gain of $87.

20. CAPITAL MANAGEMENT:

The Company's objective when managing capital is to prudently exercise financial discipline and to deliver positive returns. The Company's capital management strategy remained unchanged during the year ended December 31, 2017.

The Company monitors capital based on the ratio of debt to Adjusted EBITDA (Adjusted EBITDA is a non-GAAP measure and defined as net income before interest, taxes, depreciation, amortization, gain or loss on disposal of property and equipment and non-cash share based compensation plus non-recurring charges such as acquisition expenses, refinancing charges and severance payments). This ratio is calculated as debt, defined as total liabilities excluding trade payables and other accrued current liabilities incurred in the ordinary course of business, and future income taxes divided by Adjusted EBITDA. The Company's strategy is to maintain the current ratio and debt service coverage ratios within the parameters as set out in the Company's current Operating Loan Facility (note 7).

The Company considers its capital structure to include shareholders' equity, credit facilities, and working capital. In order to maintain or adjust its capital structure, the Company may from time to time, issue shares and adjust its capital spending to manage the level of its short-term borrowings, or may revise the terms of its credit facilities to support future growth initiatives.

21. FINANCIAL INSTRUMENTS:

a) Fair value:

The fair value of the Company's financial instruments consisting of cash, accounts receivable, accounts payable and accrued liabilities, and short term debt approximate their carrying value as at December 31, 2017 and 2016, due to their short-term maturities or floating interest rates.

b) Credit risk:

Credit risk is the risk of financial loss resulting from a customer or counter party to a financial instrument failing to meet its obligation to the Company.

The Company is exposed to credit risk with respect to accounts receivable as it has a concentration of customers involved in the oil and gas industry. The Company's accounts receivable represent balances owing by a number of unrelated companies and no single customer has an accounts receivable balance in excess of 17% of the year end receivable balance. Management believes that the Company's credit risk with respect to accounts receivable is limited due to the Company's broad customer base and management's conservative credit policy. Historically credit losses have not been material.

The allowance for doubtful accounts in respect of trade receivables is used to record impairment losses unless the Company is satisfied that a recovery of the amount owing is extremely remote, at which point the amounts are considered irrecoverable and are written off against the trade receivables directly.

IN THOUSANDS OF CANADIAN DOLLARS

Aging of accounts receivable is as follows:

	December 31, 2017	December 31, 2016
Trade receivables, gross:		
Outstanding 1 - 30 days	1,566	1,744
Outstanding 30 – 60 days	809	585
Outstanding over 60 days	582	337
	2,957	2,666
Allowance for doubtful accounts	(21)	(31)
Trade receivables, net	2,936	2,635
Sales tax and other receivables	383	195
Accounts receivable	3,319	2,830

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31, 2017 and 2016 was as follows:

	2017	2016
Balance as at January 1	31	339
Increase (decrease) in allowance of trade receivables	(10)	(88)
Bad debt recoveries, net of trade receivables written off	—	(159)
Reclassified in assets held for sale	—	(61)
Balance as at December 31	21	31

Based on historical default rates, the Company believes that no additional impairment allowance is necessary in respect of trade receivables.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

At December 31, 2017, the Company had negative working capital of $(15,028), factoring out the $19,431 loan obligation working capital would be $4,403. The Company believes that future cash flows from operations will be sufficient to meet its obligations as they arise. (see Note 7 and Note 23)

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and financial lease obligation as at December 31, 2017:

	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
Accounts payable and accrued liabilities	1,162	—	—	—	1,162	1,162
Income taxes payable	217	—	—	—	217	217
Short-term debt	19,664	—	—	—	19,664	19,431
Note Payable	—	3,281	—	—	3,281	2,467
Total	21,043	3,281	—	—	24,324	23,277

IN THOUSANDS OF CANADIAN DOLLARS

The Company anticipates that future capital resources, renewed financing arrangements and cash flows from operations will be adequate to satisfy its liquidity requirements through fiscal 2018. This expectation could be adversely affected by a material negative change or a longer than anticipated downturn in the oilfield service industry. If available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, asset dispositions, or pursuing other corporate strategic alternatives.

d) Market risk

Interest rate risk:

Interest rate risk is the risk that the fair value of a financial instrument or its cash flows will fluctuate as a result of changes in interest rates.

At December 31, 2017, a 1% change in interest rates on the floating rate debt would result in an increase or decrease in annual net income before income taxes of $197.

Currency risk:

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Company purchases equipment, parts and supplies from foreign suppliers that are denominated in United States dollars. At December 31, 2017 accounts payable and accrued liabilities did not include any material amounts denominated in foreign currencies. Management does not believe that its foreign currency risk would result in a material loss due to the short term nature of the foreign currency denominated payables and does not employ derivative instruments to manage foreign currency risk.

22. LEASE COMMITMENTS:

Minimum rental commitments for operating leases for premises and equipment over the next five years are as follows:

2018	1,610
2019	1,563
2020	1,336
2021	1,065
2022	897

Included in the above lease commitments are the net lease payments classified under the onerous lease obligation. (see note 9 and 21 (c))

23. SUBSEQUENT EVENTS:

On March 28, 2018, the Company signed a $13.5 million credit facility with a tier 1 bank, comprised of a $3 million operating loan facility, which replaces the previous $1 million operating loan facility, a $2.5 million non-revolving term loan facility, which will be used to pay out the guarantee from the Loan and Security agreement, and a $8 million equipment finance term loan facility. The operating loan facility is payable on demand by the Lender, bears interest at a rate of prime plus 3.3% and is secured by the Company's accounts receivable. The term facility will mature in two years, bears interest at a rate of prime plus 3.3% and is secured by a shareholder guarantee. The shareholder guarantee bears interest at a rate of 5.0% per annum and is paid monthly through the issuance of shares. The equipment finance loan is amortized over 36 months, bears interest at a rate of 6.1% and is repayable in equal monthly installments of principal and interest over the term. The equipment finance loan will be used to finance 75% of the cost of new equipment purchased. The credit facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.25:1.00 and the share value of the shares pledged under the shareholder guarantee not be less than 1.25 times the value of the outstanding term facility.

On March 28, 2018, the Company renewed the Loan and Security agreement in the amount of $17.5 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and will be serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to $0.27 per share from $0.25 per share and extended the expiry date to July 21, 2020. The facility no longer has any shareholder guarantees pledged as security, and all covenants and collateral remain the same. (see note 7)